



## Terms of Reference for an Assessment of Capital Needs and Recommended Investment Vehicles for the Clean Cooking Sector

### Executive Summary

The Global Alliance for Clean Cookstoves seeks proposals for a feasibility assessment for possible investment vehicles (debt, risk capital or both) that could merit Alliance support. The outcome of this assessment would be a clear investment thesis, “straw-man” structures, and a defined role and immediate roadmap for the Alliance with regard to such vehicles. The Alliance envisions the potential of partnering with a financial intermediary or fund manager on such investment vehicles.

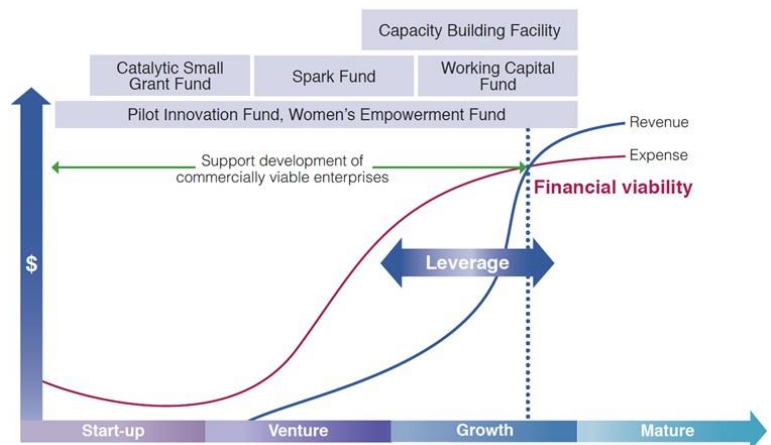
The assessment would be based on a better understanding of the specific capital needs of sector companies, the current and prospective funding initiatives already in play for the sector, technical feedback from potential capital providers and fund managers, and projected grant funding of the Alliance. The assessment would take a broad view of the investment opportunities in the sector value chain, including, but not limited to, cookstove designers, manufacturers, distributors and marketers; fuel suppliers; and consumer finance providers.

### Background

The Global Alliance for Clean Cookstoves is a public-private partnership hosted by the United Nations Foundation to save lives, improve livelihoods, empower women, and protect the environment by creating a thriving global market for clean and efficient household cooking solutions.

Part of the Alliance’s strategy to create a thriving global market is to strengthen the supply of clean cooking solutions by attracting more finance and investment to the sector. In order to increase investment to grow the sector the Alliance is working to prepare the market for scale, support the development of commercially viable and scalable enterprises, and raise awareness in the investor community on opportunities within the sector.

The Alliance has developed several financial products to support the development of commercially viable and scalable enterprises. These range from the Pilot Innovation Fund to finance innovations across the value chain, to the Spark Fund to finance the scale up of proven concepts, to the Working Capital Fund to provide affordable working capital loans for early growth stage companies. The diagram shows the suite of financial products the Alliance has designed to enable enterprises at different stages of development to grow and leverage further investment.



### The Challenge

Growing enterprises in the clean cooking sector need long-term financing to increase their production capacity, expand their distribution, provide working capital and support other growth initiatives. Unfortunately, there has been a lack of such of capital as sector companies often do not fit the required risk profile of commercial banks and risk capital providers. Even development finance institutions or impact investing fund managers have perceived the sector as too risky and providing low returns, being highly fragmented and historically dependent on subsidies and carbon revenue.

The sector has moved past these perceptions and capital providers and fund managers, particularly impact investors, are beginning to respond, including the following:

- Deutsche Bank's Global Social Finance team is making investments in the sector through the Clean Cookstove Working Capital Fund;
- responsAbility, a development, yet commercial, fund manager, has recently closed its \$30 million debt fund which targets the sector with a portion of its capital;
- The BIX Fund, an innovative project pre-finance fund out of the Netherlands, expects to have its first close of \$30 million by mid-2015 and is similarly expecting to allocate a portion of its capital to the sector;
- Acumen Fund recently closed its investment in BURN Manufacturing, a clean cookstove producer;
- USAID's Development Credit Authority is committed to guaranteeing up to \$100 million of viable debt capital for the clean cooking sector.

However, many capital providers and fund managers still perceive the sector to be unattractive and remain on the sidelines, albeit interested if the following questions were satisfactorily addressed:

- What does the potential pipeline look like for capital providers? What exactly is the demand for capital in the sector? How much? Debt, equity or grants? For which parts of the value chain? In which geographies?
- What is the proper supply side response to this demand for capital? One or more closed-end funds with capital classes to meet the debt/mezzanine/equity requirements of the potential pipeline? Is there another model of capital aggregation or mobilization more suitable in terms of transaction costs and deploying capital? To what extent would any sector investment facilities have to be concessionary or be subsidized in terms of capital structure, operating and set-up costs, etc.?
- How can any such facilities avoid crowding out local financial institutions, including banks or local funds?

## The Solution

In response, the Alliance has made the mobilization of capital a core part of its Phase 2 strategy in order to achieve the goal of 100 million households having clean cooking solutions by 2020. The Alliance is seeking to mobilize \$100 million in capital to enterprises by 2017.

In 2014, the Alliance began to more intensely engage capital providers and fund managers, having held an investor roundtable in September. This roundtable was attended by leading stakeholders of sector capital mobilization, including the social finance arms of commercial banks, impact investment funds, donors and development finance advisory firms. This was followed up by the commissioning of a preliminary study of sector financing needs and the Alliance's "Future Summit" at which governments, donors and investors made \$413 million in commitments to the clean cooking sector, including general commitments of capital for sector companies. Concurrently, the Alliance has had ongoing one-on-one discussions with these stakeholders on how best to move forward their own interests and others.

The Alliance is prepared to further champion and support capital mobilization, including using its convening ability to rally capital providers and donors. It is also prepared to raise and use donor grants funds to support the establishment of investment vehicles through their de-risking by providing "first loss capital" and financial support for organizational costs, operating expenses, enterprise capacity building and even possibly a bonus pool for achieving real social impact.

The next step for the Alliance is to conduct a feasibility assessment for possible investment vehicles (debt, risk capital or both) that could merit Alliance support. The outcome of this assessment would be a clear investment thesis, "straw-man" structures with accompanying financial summary, and a defined role and immediate roadmap for the Alliance with regard to such vehicles. This would be based on a better understanding of (1) the specific capital needs of sector companies, (2) the current and prospective funding initiatives already in play for the sector, (3) technical feedback from potential capital providers and fund managers, (4) the appetite of local financial institutions of financing the sector, and (4) projected grant funding of the Alliance. The Alliance envisions the potential of partnering with a financial intermediary or fund manager on such investment vehicles. The assessment would take a broad view of the investment opportunities in the sector value chain, including, but not limited to, stove manufacturers and distributors, fuel suppliers, and consumer finance providers.

## Activity description

The Alliance seeks proposals from qualified advisory firms (“Consultant”) for this feasibility assessment.

The objective of this assessment is to develop the concept for one or more financially sustainable investment vehicle(s) with the goal of providing needed capital to grow the clean cookstove and fuels sector. The concept piece should include detailed market analysis and investment identification, with risk and return characteristics. The Consultant should also consider the needs of the investors (who will primarily be development finance institutions, institutional investors, and socially and environmentally minded individuals and institutions) in proposing a basic legal structure and financial model.

The new investment vehicle(s) concept will be further developed into a business plan in the next phase of this work, which will include the procurement of an investment manager or managers. Investment Manager(s) will be responsible for the further development of the market analysis, recommendations for domicile, confirmation of legal structure, and full development of a financial model. The Consultant chosen for the first stage may be considered for the second stage of establishment, which may be done through another procurement process.

Expected activities for such a scope of work include:

### ***Assessment of the investment potential (expected time spent: 65%):***

- Survey sector companies to clearly understand their capital needs in terms of size, timing, use of funds, instrument (debt, equity or grant), etc. This engagement should take into account the preliminary survey done of select Alliance enterprise partners in November 2014 and the sensitivity its partners have to ongoing information requests by the Alliance. The assessment of the demand for capital by sector enterprises should be broken out by value chain segment (e.g. cookstove manufacturer, fuel distributor, etc.) and type of capital needed per segment (e.g. grant, equity, guarantees, mezzanine debt, senior debt, etc.), and take into account the companies’ ability to reach scale and the extent to which their business model can support commercial capital, subsidized capital or grants. The analysis should also include a high level assessment of the return and risk profile for the investments needed. Rather than proving a worldwide analysis, Consultant will use Alliance focus countries as exemplars of the larger market needs. The exemplar countries to be covered shall include Bangladesh, India, Kenya, Uganda, Ghana, Nigeria, China, and Guatemala.
- Research and interviews to determine the current and prospective fund initiatives presently under development for the sector and the prospects for creating new markets/sectors, leveraging work already completed.
- Interviews with capital providers to ascertain demand for such investment vehicle(s), their risk appetite, expected return and structuring requirements including risk mitigation.

### ***Fund Design and Financial Model (expected time spent 25%):***

- Interviews with potential capital providers (should include steering committee members, local financial institutions in Alliance focus countries), donors and fund managers in the categories below to inform potential structures for an investment vehicle or vehicles. Identify what each of these players are willing to do and what they will need to invest. Should include interviews with legal teams to address optimal structures taking into account tax liability, administrative difficulties, legal formation challenges, etc.
  - Donors – projected donor funding that could be raised to support any ultimate investment vehicle;
  - Returnable capital at concessional rates or high risk tolerance;
  - Commercial capital.
- Interviews with the Alliance to understand projected donor funding the Alliance could raise to support any ultimate investment vehicle.
- Research on other investment vehicles that might serve as useful models for this initiative.

### **Reporting to Alliance and Steering Committee (expected time spent 10%):**

- Regular communication with the Alliance team (calls, emails, meetings) to keep the project informed and on-track. The Alliance expects scheduled weekly check-in calls and emails and unscheduled communication as needed. Periodic reporting will be made to the Steering Committee.

The work activity is expected to commence in May 2015 and be completed no later than August 30, 2015.

### **Deliverables**

The deliverables for this will be:

- A written report (Word) and accompanying Powerpoint presentation that will provide a clear picture of:
  - the demand for capital by sector enterprises as indicated above,
  - basic “straw-man” structures for potential investment vehicles, with respective investment theses and key guidelines, total capital commitment sizes and classes, expected returns with key assumptions, and operating cost considerations,
  - the potential capital providers for possible investment vehicles for each of the capital classes (and their key structuring requirements),
  - challenges in establishing such investment vehicle structures,
  - a defined role for the Alliance and immediate road map with regard to Alliance support of such vehicles.
- A word and/or excel document that includes: (1) a detailed list of interviewed or surveyed sector companies and their capital needs, (2) a detailed list of interviewed or survey capital providers, donors and fund managers and their level of interest in the clean cooking sector, (3) the list of survey questions and (4) aggregated survey responses.
- Excel documents for the sector financial analysis and fund financial model(s)

All deliverables must:

- Be in both pdf and original Powerpoint, Excel or Word form.
- Be branded using the Alliance’s logo and desired Powerpoint template.

### **Alliance Inputs**

The Consultant will be provided access to the following information to support the activity:

- The Alliance’s investment strategy for the clean cooking sector (see [Alliance investment strategy](#)).
- The following from the preliminary assessment of sector financing needs that was done in November:
  - Survey forms that were completed by enterprises,
  - Power point report from the advisory firm.
- Various other Alliance documents related to this initiative:
  - The Alliance’s Market Enabling Roadmap 2015 to 2017 (<http://cleancookstoves.org/binary-data/RESOURCE/file/000/000/338-1.pdf>)
  - Summaries of the Alliance’s various enterprise support funds, such as its Capacity Building Facility, Spark Fund, Pilot Innovation Fund, etc.,
  - Cookstoves Future Summit Summary (<http://cleancookstoves.org/binary-data/RESOURCE/file/000/000/284-1.pdf>)
- A steering committee composed of representatives from Bank of America, Deutsche Bank, IFC, KfW, OPIC and USAID.

## Application Instructions

Applicants are strongly encouraged to familiarize themselves with the [Alliance investment strategy](#) before submitting a proposal. Applicants are also strongly encouraged to limit their proposals to no more than fifteen (15) pages. Applicants can choose their own technical and budget format but they should include the following elements:

### General

- A cover sheet with the firm's information. This should include the point of contact, email address, phone number, website (if applicable), and addresses of office(s) related to the consulting work.
- A statement of qualifications for the proposed work. At a minimum, this should include experience with the sector, investment vehicle structuring, capital provider engagement and assessing enterprise financing needs.
- CVs of lead team members. The team members should be fully fluent in English and limited in number required to do the work.
- Professional references. These should relate as much as possible to the proposed work.
- Disclosure on whether the Consultant would apply to future phases of work, including acting as an investment manager.

### Technical Work

- Work approach to the assignment. This should include:
  - A tentative assignment work plan (subject to refinement upon award).
  - Approach to understanding financing needs of sector companies, including a tentative list of such with which to engage.
  - Approach to engaging with capital providers, donors and fund managers, including a tentative list of such with which to engage.
  - A description of how the strawman investment vehicles would be presented in the deliverable.
  - Challenges that need to be managed to for a successful assignment and mitigation steps.
  - Any recommendation to revise the activities suggested above to best suit the scope of work required for the desired outcome.
- The team. This should include names, titles and specific roles of any team members, including which members will be (1) the project manager and (2) the principal technical expert.
- Inputs required from the Alliance. In addition to the above, the Consultant should note any other inputs required from the Alliance.

### Financial Proposal

The applicant's financial proposal should include:

- The total proposed budget and detailed cost breakdown by activity with the daily rates and number of days for each consultant proposed by activity, and
- Estimates for any required direct expenses, particularly for travel.

Appendices may be provided for supplementary materials as relevant, but review will be based mainly on the information provided in the proposal.

The proposal and clarifying questions should be submitted to Jen Tweddell at [investment@cleancookstoves.org](mailto:investment@cleancookstoves.org) no later than 6 pm EST on May 1, 2015. Finalists will be notified by May 15, 2015 and announcement of the selected candidate will be sent to all applicants no later than May 31, 2015.

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